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**STATEMENT OF CHAIRMAN JOEL HEFLEY  
SUBCOMMITTEE ON MILITARY INSTALLATIONS AND FACILITIES**

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**OVERSIGHT HEARING ON THE MILITARY HOUSING PRIVATIZATION INITIATIVE**

*March 10, 1998*

This afternoon, the Subcommittee on Military Installations and Facilities meets to conduct an oversight hearing on the implementation of the Military Housing Privatization Initiative. Discussions about how to leverage limited federal resources and existing on-base assets in the private marketplace to provide better military housing more quickly and for less direct federal investment began soon after I became the chairman of this subcommittee. As members know, this subcommittee worked closely with former Secretary of Defense William Perry in the development of the legislation which provided the framework for the privatization effort.

That legislation, included in the National Defense Authorization Act for Fiscal Year 1996, is nearly halfway through the five-year test period. Although the success of this initiative is critical to uniformed personnel and military families, implementation has proven to be more difficult in practice than in theory. From my perspective, there are a number of reasons for this.

First, the Department of Defense and the military services had little internal capability to work with the private sector to construct the type of arrangements contemplated by the legislation. That capacity has had to be created.

Second, the unique features of the public-private partnerships envisioned under the initiatives were not familiar to the private marketplace, particularly in the bond market. While there was a steep learning curve on the government side, there was also a learning curve in the private sector about the needs of the military services and the program Congress authorized to address the serious military housing shortfalls confronting the services.

Third, because there is some inherent risk to the taxpayer arising from any of the housing contracts into which the military departments enter under the authorities provided by Congress, the Office of Management and Budget needed to issue appropriate scoring conventions to govern this program. Those conventions were agreed upon in June 1997. In my judgment, the

scoring guidance is entirely consistent with the Federal Credit Reform Act, making it possible for the Department of Defense to work with the private marketplace while accurately taking into account any risk to the taxpayer of the failure of a project. Scoring is no longer an impediment to implementation.

However, even as progress has been made in the process of implementation, actual results are still slow – too slow – in coming. One year ago, the subcommittee took testimony on this subject and could look to only four real examples of projects in various stages of development. Those projects at Naval Station Everett, Washington, and in South Texas for the Navy, Fort Carson, Colorado, and Lackland Air Force Base, Texas are the same four projects the subcommittee can examine in any real detail. Two more projects for the Marine Corps, one at Marine Corps Logistics Base Albany, Georgia, and the other at Marine Corps Base Camp Pendleton, California, are working their way toward the issuance of a request for proposal. At every step of the process, the Department has assured the Congress that more projects are ready to break loose. I hope that will finally be the case.

The military housing privatization authorities expire on September 30, 2000, unless extended by Congress or made permanent law. My inclination, at this time, would be to extend the authorities once the five-year period expires. But, in order to justify an extension, Congress will have to see significantly better execution.

In addition to execution, I remain concerned that the Administration's budget request continues two funding patterns that I believe impede effective implementation of both the Military Housing Privatization Initiative and the plans of the military services to revitalize military housing more broadly.

Two years ago, DOD officials told this subcommittee that the ability to make privatization work effectively and to solve the housing problem in a ten-year timeframe meant a commitment to program housing funds at roughly their FY1996 level of \$784 million. By doing so, we could reach the "3 for 1" goal so often cited by the senior management of the Department. Each year since DOD provided that commitment, the budget request for military family housing construction funds has declined, and this year, the Administration's budget request would provide only 78 percent of the goal the Department established. Moreover, I continue to be baffled by the Department's reluctance to program funds for the Family Housing Improvement Fund beyond the \$7.0 million requested for administrative and other program management expenses. These budgetary issues are critical to the future of the initiative and I continue to believe the Department has not adequately addressed either one.

This program is crucial to the long-term improvement and modernization of military housing and it is my hope that we can work through the remaining implementation problems quickly so that we can arrive at a program that meets the hopeful promises that accompanied its enactment.